



**CITY OF SARCOXIE, MISSOURI
YEAR ENDED APRIL 30, 2001**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-38
May 16, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

May 2002

The following problems were discovered as a result of an audit conducted by our office of the City of Sarcoxie, Missouri.

A former city clerk of Sarcoxie negotiated a refund check due to the city and used the monies for personal use. She also reimbursed herself from city funds for a personal business trip, and personal office supplies. She pled guilty to misdemeanor stealing and paid \$475 in restitution to the city. Additionally, this former city clerk received several payroll checks in advance of pay periods. While it does not appear that she was paid more than her weekly salary, there is no indication that these advances were approved by the Mayor or the Board of Aldermen.

During the year ended April 30, 2001, the city paid more than \$3,500 to provide cellular phone service to three city employees. Several of the phone bills to support these costs were not retained by the city, and several of the bills seemed excessive. Also, there was no indication the bills had been reviewed by the individual assigned the phone (to identify personal calls) or reviewed and approved by the Board of Aldermen. In addition to cellular phones, phone cards totaling \$382 were purchased by city employees.

Our review of city expenditures identified:

- Vendor invoices and other supporting documentation were not retained for numerous city expenditures.
- At least 23 checks totaling \$10,485 were issued with only one signature.
- Some city officials are not properly bonded.
- Expenditures from the city's petty cash fund were not adequately documented.

According to the city's independent auditor, \$22,504 in health fund money was being held in the general fund as of April 30, 2001. The property tax revenues related to the health levy represent restricted revenues and are intended to be used only for health related purposes. Additionally, the city has used water and sewer monies in previous years to pay for general operating expense and as a result the general fund owes the water and sewer fund \$30,667.

(over)

YELLOW SHEET

In April 2001, the board voted to increase water rates \$1.00 per quarter until the rate increases from \$3.50 to \$7.50 for the first 1000 gallons of usage. After the final rate increase, revenues will increase approximately \$30,000 annually. However, the board did not prepare a statement of cost to maintain the water system as required when increasing rates. State law provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of the service.

Other issues related to the water and sewer system include:

- The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped.
- Duties related to the utility system are not adequately segregated.
- There is no supporting documentation or independent approval of credit adjustments posted to the utility system.
- The balance in the water meter deposit fund on August 31, 2001 was \$2,338 more than recorded utility deposits.
- During the year ended April 30, 2001, utility receipts were not always deposited intact, and the method of payment was not always recorded or correctly recorded in the computer system.

The audit also includes some matters related to expenditures, budgets and financial reporting, payroll procedures, city streets, ordinances and board meetings, city assets, and the municipal court, upon which the city should consider and take appropriate corrective action.

All reports are available on our website: www.auditor.state.mo.us

CITY OF SARCOXIE
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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Sarcoxie, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Sarcoxie. The city had engaged Mitchell, Roy and Wilson, Certified Public Accountants (CPAs), to audit the city for the year ended April 30, 2001. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended April 30, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Sarcoxie.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

November 6, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Donna Christian, CPA
In-Charge Auditor:	Jay Ross
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF SARCOXIE, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Misappropriated Funds and Payroll Advances

A. According to Jasper County Circuit Court records, former City Clerk Leaetta Jasumback pled guilty to misdemeanor stealing, and was sentenced to one year in jail, with suspended execution of sentence to one year unsupervised probation and payment of \$475 in restitution for stealing city funds.

The former city clerk negotiated a refund check due to the city and used the monies for personal use, and reimbursed herself from city funds for a personal business trip, and office supplies used personally.

The misappropriation was not detected by city officials due to numerous control weaknesses over the disbursement of city funds, including inadequately documented expenditures. (See MAR No. 3)

B. City employees are paid on a weekly basis with checks issued the last day of the week. During our review of payroll we noted several instances where former City Clerk Jasumback received payroll checks early. While it does not appear that the former city clerk was paid more than her weekly salary, payroll checks were issued one to two weeks in advance of the pay period, as follows:

<u>Check Date</u>	<u>Payroll Date</u>	<u>Amount</u>
11/10/00	11/17/00	\$ 329
12/22/00	12/29/00	329
01/12/01	01/19/01	338
01/12/01	01/26/01	338
02/16/01	02/23/01	169
03/16/01	03/23/01	169
04/13/01	04/20/01	338
Total		\$ 2,010

The payroll advance amounts noted above represent the city clerk's full weekly salary or one-half of her weekly salary. The city's payroll ledger does not reflect the fact that payroll checks were issued in advance. Further, there is no documentation to indicate that these payroll advances were approved by the Mayor or the Board of Aldermen. Except for the check issued on December 22, 2000, the Mayor indicated that he was not aware of the advances. The check

issued in February 2001 was signed only by the former city clerk. The remaining checks were cosigned by the mayor or the mayor pro-tem.

These payments appear to violate Article VI, Section 23 of the Missouri Constitution which prohibits any political subdivision of the state from granting or lending money to an individual. In addition, it is not prudent for a city to compensate employees in advance. Doing so could result in the city paying an individual for services not performed.

These payroll advances were not detected by city officials because payroll duties are not adequately segregated and payroll expenditures are not properly reviewed and approved by the Board of Aldermen. (See MAR No. 7)

WE RECOMMEND the Board of Aldermen:

- A. Work to improve the overall control of city disbursements.
- B. Establish adequate controls over the city's payroll function to prevent unauthorized payroll advances.

AUDITEE'S RESPONSE

We have made numerous improvements to controls since this incident, and payroll advances are not allowed.

2. Restricted Revenues

- A. The city has not established a separate fund or separate accounting for the revenues generated by the health property tax levy. These monies are deposited into the city's general fund, and the balance is not tracked by the city. According to the city's independent auditor, \$22,504 in health fund money was being held in the general fund as of April 30, 2001. The property tax revenues related to the health levy represent restricted revenues and are intended to be used only for health related purposes. These revenues and the related expenditures should be accounted for in a separate fund.

In addition, the city has used water and sewer monies in previous years to pay for general operating expenses and, according to the city's independent auditor, the general fund owes the water and sewer fund \$30,667. The water and sewer fees are user charges which are designed to cover the costs of providing these services. Funding for general city operations should not come from water and sewer fees.

- B. Documentation does not exist to support the allocation of payroll and fringe benefit expenditures to the city's funds. Each of the city's three maintenance employees are paid entirely from one of the city's restricted funds (water and

sewer fund, park fund, street fund) even though part of their duties are not always related to that fund. In addition, the City Clerk is paid entirely from the general fund, while the City Collector is paid from the water and sewer fund.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting revenues and expenses in the proper fund is also necessary to accurately determine the results of operations of specific activities, thus, enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. In addition, generally accepted accounting principles and various legal restrictions require revenues and expenses associated with specific activities be reflected in the fund established to account for those activities.

WE RECOMMEND the Board of Aldermen:

- A. Establish a separate accounting of the health funds, and reimburse the water and sewer fund \$30,667.
- B. Develop and implement a reasonable method for allocating common costs between the city's funds.

AUDITEE'S RESPONSE

- A. *Approximately \$21,000 has now been paid back to the Water and Sewer Fund. We will begin keeping the Health Fund monies separate.*
- B. *We will review the way costs are currently allocated and ensure documentation is maintained for how costs are allocated in the future.*

3. Expenditures

- A. Vendor invoices or other supporting documentation were not retained for numerous expenditures. During our review of specific expenditures, city officials could not locate vendor invoices for 9 of the 45 (20 percent) expenditures we selected to review. In addition, five canceled checks totaling \$1,445 could not be located. Examples include vehicle repairs, travel expenses, and street maintenance.

All expenditures should be supported by paid receipts or vendor invoices and canceled checks to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.

- B. Receipt of goods or services is not always indicated on invoices prior to an expenditure being approved for payment. In addition, invoices are not always canceled upon payment to prevent duplicate payment. During our review we

noted duplicate payments made to vendors by the city on three occasions totaling \$732. Credit was subsequently given to the city for the duplicate payments.

To ensure that goods and services have been properly received by the city, all invoices and other supporting documentation should be properly initialed or signed by a city employee upon receipt. Further, to ensure against duplicate payment of bills, invoices should be marked paid when a check has been issued by the city.

- C. The City has an unwritten policy that checks issued by the city should have two signatures. The Mayor, Mayor Pro-tem, City Clerk, and City Collector can sign checks. During our review we noted 23 checks totaling \$10,485 issued with only one signature. The dual signatures help provide assurance that checks represent payments for legitimate city expenditures.
- D. The city maintains a petty cash fund of \$100 for miscellaneous purchases. During the year ended April 30, 2001, checks made payable to petty cash totaled approximately \$400 which were used to replenish the petty cash fund. During that same time, invoices or receipts were not available to support expenditures of the fund and a ledger was not maintained to document disbursements. The current city clerk is now retaining receipts to support petty cash expenditures; however, a ledger is not maintained. The petty cash fund is under the control of the City Clerk, and no independent review is made of the fund to ensure it is maintained properly.

Invoices should be retained for all petty cash expenditures and a ledger should be maintained for all petty cash transactions. Periodically, the petty cash funds on hand should be reconciled to the ledger balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused.

- E. The Mayor and Mayor Pro-tem are authorized to sign checks, with dual signatures required on each check; however, these officials are not bonded. Failure to properly bond individuals who have access to funds exposes the city to risk of loss. In addition, City Code, Section 21.135 requires these city officials to obtain bond coverage in the amount of the maximum monthly income from the previous fiscal year.
- F. During the year ended April 30, 2001 the city paid \$3,641 to a trucking company owned by the former City Clerk's husband for hauling services, and in May 2001 \$495 was paid to a greenhouse owned by the mother of an aldermen. These services were not bid. The mayor indicated the trucking company was the only company in the area, and the greenhouse provided the city supplies at wholesale cost. There was no indication in the minutes that the hauling service was a sole source purchase, and documentation was not obtained to verify that the city paid wholesale price to the greenhouse.

Transactions between the city and parties related to city officials represent potential conflicts of interest. Therefore, the city should ensure there is adequate documentation to support all related party transactions.

- G. During the year ended April 30, 2001 the city paid \$80 for Christmas bouquets for city employees and \$600 for parties for employees and volunteer workers.

These disbursements do not appear to be a necessary or prudent use of public funds. The city's residents have placed a fiduciary trust in their public officials to spend tax revenues and fees in a necessary and prudent manner.

- H. The city does not issue Forms 1099-Miscellaneous as required. In addition to the payments for hauling services noted in part F. above, the city also paid \$2,853 for electrical work and \$2,198 for grant administration during 2000 which was subject to Form 1099 reporting. Sections 6041 through 6051 of the Internal Revenue Code require nonemployee payments of at least \$600 in one year to an individual or unincorporated business be reported to the federal government on Forms 1099-Miscellaneous.

- I. During the year ended April 30, 2001, the city paid more than \$3,500 to provide cellular phone service to three city employees. Several of the phone bills to support these costs were not retained by the city, and several of the bills seemed excessive. Also, we noted there was no indication the bills had been reviewed by the individual assigned the phone (to identify personal calls) or reviewed and approved by the Board of Aldermen. In addition to cellular phones, phone cards totaling \$382 were purchased by city employees. It is unclear why three cellular phones and phone cards were needed by city employees to conduct city business. The city recently reduced the number of cellular phones to one.

The city does not have a formal policy regarding the use of cellular phones or phone cards. While cellular phones can help increase employee productivity, they are also costly. A formal written policy is needed regarding cellular phones and the use of phone cards. Such a policy should address which employees need a cellular phone and/or phone card, proper use of the phone and/or card, and a review and authorization process. Also the Board of Aldermen should review the propriety of usage to determine whether the city is receiving sufficient benefit for its cost.

WE RECOMMEND the Board of Aldermen:

- A. Ensure adequate supporting documentation is retained for all city expenditures.
- B. Require all invoices by initialed or signed by a city employee to indicate acceptance of the goods or services, and all invoices be canceled when paid.
- C. Ensure that all checks have the required number of signatures.

- D. Maintain invoices for all petty cash expenditures. In addition, a ledger should be maintained documenting all petty cash transactions, and the petty cash fund should be periodically counted and reconciled to the ledger balance by an independent person.
- E. Obtain bond coverage for city officials.
- F. Ensure all related party transactions are adequately documented.
- G. Ensure all expenditures from city monies are a prudent use of public funds.
- H. Ensure payments totaling greater than \$600 to nonemployees and unincorporated businesses, are properly reported to the Internal Revenue Service.
- I. Determine whether cellular phones and phone cards are needed for the city. If the city determines there is a need, the board should develop a policy regarding the use of cellular phones and phone cards including an assessment of which employees need a cellular phone and/or phone card and procedures to monitor their use.

AUDITEE'S RESPONSE

A,B,

D&G. We have implemented these recommendations.

C. We will ensure two signatures are on all checks. We have discussed this with the bank and they are to notify us if a check comes through with only one signature.

E. We have checked into getting bonds for these officials, and will ensure these officials are bonded after the April 2002 election.

F. There will not be any more related party transactions.

H. Forms 1099 were issued in January 2002 for 2001.

I. There is currently only one cell phone for the Police Chief and there are no more phone cards.

<p>4. Board Meetings, City Ordinances, and Tax Levies</p>
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- A. During the year ending April 30, 2001 the Board of Aldermen regularly had a vacant seat on the board and had difficulty getting board members to attend meetings. As a result, numerous meetings were held with only two aldermen and the mayor present. During these meetings ordinances were adopted, city officials were appointed, bids were accepted, and bills were approved for payment.

City Code, Section 24.030 indicates that a quorum shall consist of a, "majority of the full membership including vacancies and the Mayor of the City". Based upon city code it would appear that two aldermen and the mayor would constitute a quorum. However, Section 79.120 RSMo indicates that the mayor shall not vote except in the case of a tie. Therefore, it appears questionable that city business can be conducted with the approval of only two board members.

There is no indication that the city consulted its attorney regarding this issue. The city should consult legal counsel regarding the apparent conflict between City Code, Section 24.030 and state law.

- B. Written minutes were not maintained for closed meetings. Although minutes for closed meetings are not specifically required by law, minutes constitute the record of proceedings of the Board of Aldermen. Formal written minutes for closed meetings result in a better record of city transactions, proceedings, and decisions. In addition, minutes help the city demonstrate that closed discussions or business relate to the specific reason announced for closing the meeting pursuant to the Sunshine Law, Chapter 610, RSMo.
- C. Board minutes prepared by the City Clerk are not always signed. The board minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- D. The city has adopted city codes through ordinances. Since ordinances represent legislation passed by the board to govern the city and its residents, it is important that the city's code be followed. During our review we noted the following instances where the city did not always follow the city code.
 - The city changed its customer water and sewer billing statement to indicate that shut off of the service would occur on the 23rd day of the following month if the bill was not paid. However, City Code, Section 27.160 for delinquent bills provides that, "If any bill for water service shall be and remain past due and unpaid for as long as thirty (30) days, service to such customer shall be discontinued..."
 - The board repaired a section of sidewalk on the city square but did not track the cost of the repairs or request reimbursement from the property owner as required by city code. City Code, Section 27.600 provides that, "It shall be the duty of the property owner, owning property along and in front of which sidewalks may have been or may hereafter be constructed, to keep such sidewalks in good repair at all time, and upon failure to keep said sidewalks repaired, such walks may be repaired by the city, and the cost of such repairs shall be assessed as a special tax against the property abutting thereon."

cost of such repairs shall be assessed as a special tax against the property abutting thereon.”

As the above examples illustrate, the city should review its current ordinances and amend or rescind outdated ordinances and ensure all ordinances are complied with.

- E. As noted in the “Review of 2001 Property Tax Rates” issued by the Missouri State Auditor on December 28, 2001, the 2001 property tax rate levied by the city exceeded the tax rate ceiling by 0.2189 cents per \$100 in assessed valuation.

<u>Purpose</u>	<u>CERTIFIED RATE</u>	<u>Taxing Authority's Proposed Rate</u>
General Revenue	0.5265	0.6800
Parks & Recreation	0.1007	0.1300
Health	0.1239	0.1600

According to the City Clerk, the levies were initially set too high because of problems with assessed valuation amounts received from the county. However, during the November 6, 2001 board meeting, the Board of Aldermen decided to lower the tax rate levy to the State Auditor’s certified rate of 0.7511 and subsequently printed the city's real and personal tax statements. This adjusted tax levy was not filed with the County Clerk's office in time for the county to apply the new levy to Railroad and Utilities, and as a result, the city collected approximately \$1,200 in excess taxes.

Tax rate ceilings are determined based on the requirements of Section 137.073, RSMo, and Article X, Section 22 of the Missouri Constitution (the Hancock Amendment). Cities should ensure property tax rates levied do not exceed the tax rate ceilings established by state law. Further, Article X, Section 3 of the Missouri Constitution requires taxes levied to be uniform upon the same class or subclass of subjects within the territorial limits of the authority levying the tax.

WE RECOMMEND the Board of Aldermen:

- A. Conduct city business only when an adequate number of aldermen are present, and consult legal counsel regarding the compliance of City Code 24.030 with state law.
- B. Ensure minutes are prepared for all closed meetings.
- C. Ensure the board minutes are signed by the preparer and Mayor or a designated member of the board to attest to their accuracy.

- D. Ensure all city codes/ordinances are complied with, or update the codification of city ordinances to help ensure ordinances are current and reflect the board's intentions.
- E. Not levy amounts in excess of the ceiling and reimburse the railroad and utility companies for the excess taxes collected.

AUDITEE'S RESPONSE

- A. *Because we have been unsuccessful in recruiting board members to fill the vacant seats and attend meetings, we will continue to conduct city business with only two aldermen.*
- B. *We have already discussed this with our City Attorney.*
- C. *We have implemented this recommendation.*
- D. *The City Attorney is working on changing the ordinance regarding the sidewalks and we will review the water and sewer ordinance to ensure it is in agreement with current city practices.*
- E. *When the railroad company starts maintaining their right of way, we will refund their money.*

5.

Water and Sewer System Procedures

- A. The city has not performed a formal review of the adequacy of the water and sewer rates. In April 2001, the board voted to increase water rates \$1.00 per quarter until the rate increases from \$3.50 to \$7.50 for the first 1000 gallons of usage. After the final rate increase revenues will increase approximately \$30,000 annually. However, the board did not prepare a statement of cost to maintain the water system as required when increasing rates. Section 67.042, RSMo 2000, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of the service. The city's audited financial statements showed operating income of \$11,821 and an operating loss of \$9,781 in the Water and Sewer Fund during the years ending April 30, 2001 and 2000, respectively. Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city needs to perform a thorough review of the cost of providing these services and set rates appropriately.
- B. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The City Collector prepares monthly reports of the total number of gallons billed to customers and the water department records meter readings of the city's water wells, so information is available to perform such reconciliation.

During the month of August 2001, the gallons of water pumped exceeded the total gallons billed by 4,444,407 gallons or 51 percent. The city believes that the large water loss is partially due to flushing out the system and that water usage at city facilities are not metered.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- C. The City Collector performs all functions related to preparing the utility bills, receipting and recording utility payments and credit adjustments, depositing utility receipts, monitoring accounts for delinquencies, and initiating service shutoff orders.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties or receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the accounting records.

- D. During the year ending April 30, 2001, utility receipts were not always deposited intact, and the method of payment (cash and checks) was not always recorded or correctly recorded in the computer system. In addition, no reconciliation was performed between the composition of monies received to the composition of monies deposited.

During our review of the thirteen deposits made during July 2000, we noted ten instances where the amount of cash recorded did not agree to the amount of cash deposited. The amount of cash recorded during July 2000, exceeded the amount of cash deposited by \$248. While city personnel indicated that it was customary for customers to receive cash refunds for overpayments during this time period, there was no documentation to indicate refunds had been made in cash. As a result, we have no assurance that cash received by the city during the year ending April 30, 2001 was accounted for properly. Controls of utility receipts improved after April 30, 2001.

Depositing monies intact helps ensure accurate accounting of utility receipts and reduces the possibility of loss or misuse of funds. To adequately safeguard funds and ensure receipts are accounted for properly, receipts should be deposited intact and the amount of cash and checks received should be reconciled to the bank deposit.

- E. There is no supporting documentation or independent approval of credit adjustments posted to the utility system. The City Collector has the ability and authority to post credit adjustments to the computer system without obtaining the approval of anyone else. Adjustments totaling more than \$13,000 were made during the year ending April 30, 2001. According to the City Collector, numerous adjustments for incorrect water usage amounts or leaks are necessary. While the reasons to adjust the billing may be valid, it appears most of the adjustments are made at the discretion of the City Collector and are not formally reviewed by the Mayor or the board.

To ensure that all credit adjustments are valid and properly approved, the Mayor, board, or someone independent of receipting and recording functions should review all credit adjustments and proper supporting documentation should be maintained of such adjustments.

- F. City residents are required to pay a refundable deposit for water and sewer service. The City Collector collects and maintains a listing of deposits received with the amounts being deposited in the Water Meter Deposit Fund. Currently, the city collects a \$50 deposit; however, varying amounts ranging from \$5 to \$50 have been collected in the past. As of August 2001, the city had 641 water customers but only identified 308 utility deposits totaling \$15,375. The balance in the water meter deposit fund on August 31, 2001 was \$17,713, resulting in a \$2,338 difference.

To ensure all city residents have paid a deposit and the city only refunds deposits to residents that have actually paid, adequate records of sewer and water deposits are necessary. The city needs to identify the amount of the deposit held for each customer and update the permanent record of this information. Preparation of a detailed listing of customer deposits would provide a means to perform periodic reconciliations between customer deposit records and monies in the account. Without these reconciliations, the possibility of undetected errors is increased. A similar comment was made by the city's auditor during the annual audit.

WE RECOMMEND the Board of Aldermen:

- A. Perform periodic reviews of the costs to maintain utility services, and establish rates to ensure revenues are adequate. In addition, a statement of the costs to maintain funding of the service should be prepared, as required by state law, before enacting any rate increase.
- B. Compare the gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences.

- C. Segregate the duties of receiving and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If this is not possible, at a minimum, procedures for adequate independent reviews should be established.
- D. Deposit utility receipts intact and reconcile the composition of checks and cash received to the composition of amounts deposited.
- E. Ensure adjustments to the water and sewer billings are approved by the Mayor, board or someone independent of the system and that adequate documentation is retained of such adjustments.
- F. Identify all meter deposits held by the city and periodically reconcile these deposits to the water meter deposit bank account.

AUDITEE'S RESPONSE

- A. *We are currently in the process of putting together a statement of cost for the water system.*
- B. *We have been investigating the difference between water pumped to water sold, and believe most of the problem is due to old meters. We have been reviewing prices for replacing meters throughout the city.*
- C. *We believe we have segregated duties as much as possible, the City Clerk and Collector are sharing in these duties.*
- D. *We have implemented this recommendation.*
- E. *We will begin printing a list of adjustments for the Board of Aldermen to review monthly.*
- F. *We are in the process of trying to determine the difference in the water deposit account. We have sent out questionnaires to select customers who may have paid a deposit many years ago.*

6.	Budgets and Financial Reporting
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- A. The city could not locate its budget for the year ending April 30, 2001. The city's budget for the year ending April 30, 2002 did not include a budget message, the beginning and ending resources available for any city funds, and the prior two years actual amounts. In addition, the Board of Aldermen does not periodically compare actual revenues and expenditures to the budgeted amounts.

Sections 67.010 to 67.080, RSMo, provide the city's budget shall present a complete financial plan for the ensuing budget year and include specific requirements regarding the preparation and approval of the annual operating budget. A budget should be prepared for all funds of the city and the budget should include a budget message, the beginning and projected ending fund balances of all city funds, and actual or estimated revenues and expenditures for the two previous fiscal years. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area and providing a means to effectively monitor costs.

- B. The City has not published semi-annual financial statements as required by law. The last financial statement of the city was published in June 1999; however, it did not include detailed information, but only presented total revenues, expenses, and beginning and ending balances. In addition, these published financial statements did not include the city's indebtedness.

Section 79.160, RSMo 2000, requires the city council to publish, semi-annually, a full and detailed account of the receipts, expenditures, and indebtedness of the city. The publication of such financial statements are intended to provide information to citizens regarding the financial activity and condition of the city.

- C. The City Collector has not provided monthly or annual reports of taxes collected to the Board of Aldermen since September 1999. Sections 79.310, 94.320, and 94.330, RSMo 2000 requires the city collector to prepare monthly and annual reports to the board of aldermen of the amount of taxes collected and to prepare annual lists of delinquent taxes including a detailed list of persons who have not paid. The board is to examine and approve the reports and charge the City Collector to collect the amount of delinquent taxes due.

Monthly and annual reports which comply with state law would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Such a report would summarize all taxes charged to the City Collector, monthly collections, delinquent credits, abatements, and additions, and protested amounts. Without such a report, examined by the Board of Aldermen, any errors or irregularities that might occur are likely to go undetected.

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets in accordance with state law. In addition, the board should periodically compare actual revenues and expenditures with budgeted amounts to monitor city finances and to ensure actual expenditures do not exceed budgeted amounts.

- B. Ensure financial statements are published semi-annually and that the published financial statements provide the citizens an adequately detailed account of the financial activity and indebtedness of the city.
- C. Require the City Collector to prepare and maintain detailed monthly and annual reports of taxes collected and delinquent taxes.

AUDITEE'S RESPONSE

- A. *We will ensure that the 2003 budget complies with state law.*
- B. *Financial statements are now being published.*
- C. *This recommendation has been implemented. In February 2002 the City Collector provided the required reports to the Board of Aldermen.*

7.	Payroll Procedures
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- A. City employees do not prepare time sheets, and records are not maintained of vacation, sick leave, and compensatory time earned, taken, or accumulated for each employee. Time sheets are necessary to document hours actually worked, substantiate payroll expenditures, and provide the board with a method to monitor hours worked. The city should require all employees to prepare detailed time sheets which are reviewed and approved by a supervisor. Documentation of vacation and sick leave earned, taken, and accumulated is necessary to ensure employees are properly compensated for accumulated leave and to ensure leave time used is not in excess of time accumulated.
- B. Duties are not adequately segregated to provide the necessary internal controls over the payroll function. The city clerk handles all payroll duties including preparation, record keeping, disbursing payroll checks, distributing employee W-2s, and maintaining the personnel files. While the Board of Alderman approves city expenditures, this approval does not include payroll.

A proper segregation of duties provides a means of establishing control over assets, thus minimizing the risk of loss, theft, or misuse of funds. If segregation of duties is not possible, the comparison of the payroll disbursements to the payroll register and employees time sheets by an independent individual would provide another supervisory review to minimize the risk of loss, theft or misuse of funds.

WE RECOMMEND the Board of Aldermen:

- A. Require all city employees to prepare time sheets reflecting the actual time worked, and signed by the employee and the applicable supervisor. In addition, records should be maintained of vacation, sick leave, and compensatory time earned, taken, and any accumulated balances.
- B. Properly segregate payroll duties, or if segregation of duties is not possible, an independent review of the related payroll records should be performed periodically.

AUDITEE'S RESPONSE

- A. *Vacation, sick leave, and comp-time are currently being tracked. We will consider requiring time sheets from city employees.*
- B. *We will begin reviewing payroll monthly with other city expenditures.*

8. Street Maintenance Plan

A formal maintenance plan for city streets has not been prepared annually. A maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

WE RECOMMEND the Board of Aldermen prepare and document a maintenance plan at the beginning of the year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

We currently have a street maintenance plan; however, it is not documented. This will be documented in the future.

- A. Mileage and maintenance logs are not maintained for city vehicles and equipment. The city owns five vehicles including two police cars, one van, two trucks, as well as a tractor and a backhoe.

Without mileage and maintenance logs, the city cannot determine whether city vehicles are used solely for city business or ensure all vehicles are being utilized. Logs should be maintained indicating the employee using the vehicle or equipment, the purpose and destination of the trip, the beginning and ending odometer readings, and the fuel, operation, and maintenance costs. The logs should also be reviewed by the board to ensure all mileage is recorded and that the vehicles are being properly utilized. Mileage and maintenance logs are necessary to document appropriate use of the vehicles and to monitor operation and maintenance costs.

- B. Fuel logs are not maintained for the city owned police cars, van or equipment. Fuel logs are maintained only by the maintenance department; however, a comparison of the fuel used to the fuel purchased is not performed. The city maintains three fuel tanks, two unleaded and one diesel, located at the maintenance building for use in city vehicles and equipment. During the years ending April 30, 2001 and 2000, the city spent approximately \$10,633 and \$6,362, respectively, for fuel.

To ensure the reasonableness of fuel expenditures, the city should maintain records of fuel usage, and reconcile them to fuel purchased and on hand. Failure to account for fuel purchases could result in the loss, theft or misuse of city assets going undetected.

- C. The city has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city. In addition, the city has not prepared and maintained permanent, detailed property records for the water and sewer system. The city's CPA has maintained a listing of fixed asset purchases since May 1, 1998. Also, annual physical inventories are not performed.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for general fixed assets and the fixed assets of the water and sewer system, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets.

Periodically, the city should take physical counts of its assets and compare to the detailed records. A similar comment was made by the city's auditor during the annual audit.

WE RECOMMEND the Board of Aldermen:

- A. Maintain mileage and maintenance logs for all city vehicles and equipment, and perform periodic reviews for completeness and reasonableness.
- B. Maintain fuel logs for all city vehicles and equipment, and perform periodic comparisons of fuel used to fuel purchased.
- C. Utilize the listing maintained by the CPA to establish property records for general fixed assets that record all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent transactions. In addition, the city should properly tag or otherwise identify all city property and conduct physical inventories for comparison to the property records.

AUDITEE'S RESPONSE

- A. *We are now keeping maintenance logs and are in the process of implementing mileage logs for city vehicles.*
- B. *We are now keeping fuel logs.*
- C. *We have prepared an inventory of city assets, but have not been able to locate the listing. The list will be located and updated when city assets are purchased and/or disposed.*

10. Municipal Court

- A. Receipts are not recorded and deposited on a timely basis and are not stored in a secure location. A cash count performed on September 12, 2001 identified cash and checks totaling approximately \$748 that were stored in an unlocked desk drawer. Of the monies counted, approximately \$560 had not been receipted or recorded. In addition, checks and money orders are not restrictively endorsed when received, but are endorsed when the deposit is prepared.

To reduce the potential for loss, theft, or misuse of funds, receipts should be promptly recorded and deposited intact daily or when accumulated receipts exceed \$100. Also checks and money orders should be restrictively endorsed immediately upon receipt, and stored in a secure location accessible only to authorized personnel.

- B. The duties of receiving, recording, and depositing bonds, fines and court costs collected by the municipal court are not adequately segregated. Currently, the Court Clerk performs all of these duties with little or no supervisory review of her work.

Proper segregation of duties helps ensure that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing receipts from recording and reconciling receipts. If proper segregation of duties cannot be achieved, at a minimum, periodic supervisory reviews of the records should be performed and documented.

- C. Checks totaling approximately \$318 written on the regular fee account and \$182 written on the bond account have been outstanding for more than one year. Some checks date as far back as June 1999.

Outstanding checks should be periodically reviewed to determine if the payees can be readily located and if there is a need to reissue the checks. If the payees cannot be located, the amounts should be disposed of in accordance with Sections 447.500 through 447.595, RSMo 2000.

- D. The Municipal Judge does not always sign the dockets after dispositions are recorded. To ensure the proper disposition of all cases has been entered in the court records, the Municipal Judge should review each court docket and sign the docket to indicate approval of the recorded disposition.

- E. Ticket books are not issued in numerical sequence and the numerical sequence of tickets issued is not accounted for. While a log of tickets issued is maintained, the tickets are not recorded in numerical order.

Without a proper accounting for the numerical sequence and ultimate disposition of tickets, the police department and the municipal division cannot be assured all tickets issued are properly submitted to the court for processing. Properly maintained logs would ensure accountability of all tickets as well as their ultimate disposition.

- F. Bond forms used by the police department are not pre-numbered. Bond forms are manually assigned a number as they are issued. To ensure adequate control and accounting for bond forms, bond forms should be pre-numbered and the numerical sequence of bond forms should be accounted for.

WE RECOMMEND the municipal division:

- A. Promptly record all receipts and deposit all monies intact daily or when accumulated receipts exceed \$100. Also ensure that all monies received are stored in a secure location accessible only by authorized personnel, and that all checks and money orders are restrictively endorsed immediately upon receipt.
- B. Segregate accounting duties to the extent possible or ensure periodic supervisory reviews are performed and documented.
- C. Reissue old outstanding checks to any payees who can be located. If the payees cannot be located, the monies should be disposed of through the applicable statutory provisions. In addition, procedures to routinely review and reissue any old outstanding checks should be adopted.
- D. Require the Municipal Judge to review and sign all court dockets to indicate approval of all recorded dispositions.
- E. Work with the police department to ensure traffic ticket books are assigned to officers in numerical order and records are maintained to account for the numerical sequence and ultimate disposition of all tickets issued.
- F. Work with the police department to ensure prenumbered bond forms are issued for all bonds received.

AUDITEE'S RESPONSE

The Municipal Judge and the Court Administrator provided the following responses:

- A-C. We will try to do these in the future.*
- D. It has not been a practice of the court to sign dockets that are handled through the Traffic Violation Bureau, but is a practice of the court to sign all dockets that are not handled by the Traffic Violation Bureau.*
- E. It is not the responsibility of the court to issue ticket books, that is the responsibility of the Police Department.*
- F. Pre-numbered bond forms are expensive to have printed compared to the low amount of bonds that are written. The Police Department is to keep a log of the bond numbers assigned to each bond.*

This report is intended for the information of the management of the City of Sarcoxie, Missouri, and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF SARCOXIE, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Sarcoxie is located in Jasper County. The city was incorporated in 1868 as a fourth-class city. The population of the city in 2000 was 1,354.

The city government consists of a mayor and four-member board of aldermen. The members are elected for two-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at April 30, 2001, were:

Elected Officials	Term Expires	Compensation Paid for the Year Ended April 30, 2001	Amount of Bond
Carlton Meyer, Mayor	April, 2002	\$ 0	\$ 0
Richard Salyer, Alderman	April, 2003	0	0
Dale Rice, Alderman	April, 2002	0	0
Christian Carter, Alderman (1)	April, 2002	0	0
Vacant Seat, Alderman	April, 2002	0	0
<u>Other Principal Officials</u>			
Penny Dean, City Clerk (2)		2,940	50,000
Teddra Prater, City Collector (3)		128	50,000
William Jones, Chief of Police (4)		26,292	50,000
Henry Clapper, City Attorney		5,046	0
Carr Woods, Municipal Judge		3,000	50,000
Julie Johnson, Court Clerk		3,128	50,000

- (1) Appointed to replace Anthony Chapman who resigned in February 2001.
- (2) Appointed City Clerk to replace Leaetta Jasumback who resigned in April 2001.
- (3) Gail Towers served as City Collector until March 2001. Penny Dean was appointed City Collector in March, 2001, then resigned in April 2001 to become City Clerk, and Teddra Prater was appointed. Brenda Koeshall was appointed City Collector in June 2001.
- (4) Appointed to replace Angela Sivils who resigned in May 2000.

On April 30, 2001 the city employed approximately 10 full-time and 4 part-time employees.

Assessed valuations and tax rates for 2001 and 2000 were as follows:

ASSESSED VALUATION	<u>2001</u>	<u>2000</u>
Real estate	\$ 6,797,830	6,124,410
Personal property	<u>186,140</u>	<u>161,593</u>
Total	<u>\$ 6,983,970</u>	<u>6,286,003</u>

TAX RATES PER \$100 ASSESSED VALUATION

	<u>Rate</u>	<u>Rate</u>
General Fund	\$ 0.5265	0.68
Park Fund	0.1007	0.13
Health	0.1239	0.16

The city has the following sales taxes; the rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	\$.005	None
Transportation	.005	2004
Park	.005	2010

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